



## MEMORANDUM

**Meeting Date:** May 19, 2020

**Item No.** Executive Session and G-1

**To:** Mayor and City Council

**From:** Trina Zais, AICP, MPA, Director of Public Services & Economic Development

**Subject:** **The Harmonson Boutique Hotel Economic Development Incentives Request**

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### **INTRODUCTION**

The Harmonson Boutique Hotel is conceptualized by Sue Salstrand, Abby Mahoney, and Micah Mahoney, descendants of Peter Harmonson who was an early Keller settler as well as Denton County Sheriff and Young County Chief Justice. The family has experience owning and operating short term rental properties (AirBNB and VRBO) successfully, with positive financial returns and high customer reviews.

The hotel is envisioned to offer 10 unique rooms for overnight accommodations, including luxury baths and family suites, in addition to an outdoor patio, a pool, gardens and a wine bar open to the public.

### **BACKGROUND**

The site for the hotel located at 137 E. Hill Street was formerly the Lucas Funeral Home (chapel only, no mortuary) and before that served as a church for two different denominations. Since 2017 this structure has stood vacant.

The building was constructed in 1987, according to the Tarrant Appraisal District records. A recent survey indicates the presence of asbestos in the building, including carpet filler/mastic, ceiling drywall and popcorn, ceiling tile/mastic, floor tile/mastic. Specialized asbestos abatement and certification is required, by federal law. Additionally, fire suppression sprinklers are also required in a building of this size, regardless of use, in accordance with Fire Code.

Estimated costs for the asbestos abatement alone is in excess of \$82,000 as described in a bid provided by Leak-Tex Corporation (aka Environmental Associates, Inc.). Estimated costs for the fire suppression sprinkler system are estimated to be around \$50,000 based on other, similar projects in the city.

### **POLICY PARAMETERS**

The Economic Development Resolution 2993, adopted by the City September 21, 2010 and Resolution 3349, adopted April 2, 2013, provide a comprehensive policy of guidelines and criteria for economic development incentives, in accordance with Chapter 380 of the Texas Local Government Code; Chapter 311 of the Texas Tax Code; and Chapter 312 of the Texas Property Tax Code.

In order to be eligible for designation receive tax incentives, the consideration for application must meet the following criteria:

1. Must be reasonably expected to increase the appraised value of the property in the amount specified in the agreement;
2. Must be expected to produce annual sales over \$4 million to receive up to 100% sales tax rebate for a maximum of three years;
3. Must not be expected to solely or primarily have the effect of transferring employment from one part of Tarrant County to another;
4. Must be necessary for expansion and/or modernization because the capacity cannot be provided efficiently utilizing existing improved property when reasonable allowance is made for necessary improvements; and

### **Real Estate Property Tax Grants**

The City of Keller property tax rate is 0.3999 per \$100 valuation. This equates to approximately 17% of the total property tax bill and the Keller Independent School District and Tarrant County (including the County, Hospital and College Districts) comprise the rest of the real estate property tax bill. An applicant may apply for a rebate of all or a portion of the city's real estate property tax, at the discretion of the City Council.

## INCENTIVES REQUESTED

Economic Incentive Summary†						Cash Grants			Net Total
PROPERTY TAX GRANT DURATION	PROPERTY TAX GRANT**	PERSONAL PROPERTY TAX GRANT**	HOT***	IMPACT FEES GRANT*/**† at 100%	DEVELOPMENT FEES GRANT*/**	REVENUE SUBTOTAL	AESBESTOS AND FIRE SPRINKLERS - 100%	WINE BAR, PUBLIC LOUNGE AND OUTDOOR PATIO - 100%	ACTUAL COST MINUS REALIZED REVENUES
Construction	100% \$1,900	100% 0	100% 0	\$918 \$979 \$8,140	100% \$6,661	\$16,698	\$185,000	\$65,000	\$(258,561.00)
1 <sup>ST</sup> year	100% \$8,600	100% \$216	100% \$35,259			\$44,075			\$ -
2 <sup>nd</sup> year	100% \$8,815	100% \$222	100% \$38,197		-	\$47,234			\$ -
3 <sup>rd</sup> year	100% \$9,035	100% \$229	100% \$49,950		-	\$59,214			\$ -
4 <sup>th</sup> year	100% \$9,261	100% \$236	100% \$49,950		-	\$59,447			\$ -
5 <sup>th</sup> year	100% \$9,493	100% \$243	100% \$49,950		-	\$59,686			\$ -
TOTAL AT YEAR 5	\$47,104	\$1,146	\$223,307	\$10,037	\$6,661	\$269,657	\$185,000	\$65,000	\$(258,561.00)
*EXCLUDES FEES/PAYMENTS TO THIRD PARTY CONSULTANTS OR PASS THRU FEES;									
**NOT TO EXCEED (NTE)									
†ESTIMATE ONLY BASED ON INFORMATION PROVIDED - ACTUAL AMOUNT MAY VARY ONCE PLANS ARE SUBMITTED AND APPROVED									
***HOT BASED ON 60% (YEAR 1), 65% (YEAR 2), 75% OCCUPANCY OF 10 ROOMS AVAILABLE 356 DAYS EACH YEAR AT \$230/NIGHT									

The Harmonson Request	In Compliance	City Policy
Decreasing Real Property Tax Grant	No	Discretionary
100% waiver of building/ development fees (excluding third party)	Yes	Discretionary
50% Reimbursed Road, Water, Sewer Impact Fees	No	Discretionary
Fast Track Permitting	Yes	If the project needs and justifies the reduced time

## RECOMMENDATION

ECONOMIC INCENTIVE REQUEST RECOMMENDATION								
Incentive Request	Real Estate Property* Tax Grant - Decreasing	Personal Property** Tax Grant - None	City Hotel Occupancy Tax Revenues*** - Decreasing	Development Fees - 50%	Keller Impact Fees - 50%	Cash Grant: Aesbestos and Fire Sprinklers - 50%	Total Recommendation	Primary ROI†
Construction Phase	\$ 2,124	\$ -	\$ -	\$3,505	\$5,044	\$93,000	\$103,674	\$ (84,675.35)
Year 1	\$ 8,600	\$ -	\$ 35,259	\$0	\$0		\$43,859	\$ 216
Year 2	\$ 7,933	\$ -	\$ 31,733	\$0	\$0		\$39,666	\$ 7,567
Year 3	\$ 7,228	\$ -	\$ 28,207	\$0	\$0		\$35,435	\$ 23,777
Year 4	\$ 6,483	\$ -	\$ 24,681	\$0	\$0		\$31,164	\$ 28,280
Year 5	\$ 5,696	\$ -	\$ 21,155	\$0	\$0		\$26,851	\$ 32,830
Year 6	\$ -	\$ -	\$ -	\$0	\$0		\$0	\$ 59,924
Year 7	\$ -	\$ -	\$ -	\$0	\$0		\$0	\$ 60,174
Year 8	\$ -	\$ -	\$ -	\$0	\$0		\$0	\$ 60,429
Year 9	\$ -	\$ -	\$ -	\$0	\$0		\$0	\$ 60,691
Year 10	\$ -	\$ -	\$ -	\$0	\$0		\$0	\$ 60,960
DECADE TOTALS	\$ 38,064	\$0	\$ 141,036	\$3,505	\$5,044	\$ 93,000	\$ 280,650	\$ 310,173
*Construction phase based on construction value \$2,150,000 and only the portion allocated to the City General Fund (1% of sale of 10% of construction); year 1-10 based on projected alcohol and retail sales								
**based on value \$54,000 private property value								
***based 60% (Year 1), 65% (Year 2), 75% occupancy of 10 Rooms available 365 days each year at \$230/night								
† Does not include Secondary or Tertiary Economic Impacts								

My professional opinion is for approval of the request for incentives totaling approximately **\$280,650.00**, as presented, for the following reasons:

1. The request meets each aspect of the Economic Development mission statement;
2. There is a good return on investment expected. Full recoupment is achieved in year 5 with an annual positive revenue starting in year 1;
3. It is anticipated that the secondary impacts will return in excess of \$1 million starting in year 3 (based on Texas State economic analysis);
4. This is a medium risk investment. Most of the incentive is in the form of a cash grant awarded upon completion of asbestos removal and fire suppression sprinklers installation of an existing structure, improving our commercial building inventory. Regardless of use, this will need to be done.
5. The remaining incentives are performance based and therefore are dollars otherwise not realized.
6. Other offers placed on the building have been non-taxable entities that would pay neither property nor sales taxes.